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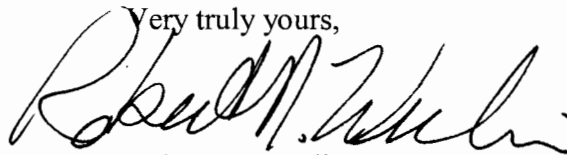
Mary L. Cottrell, Secretary
Department of Telecommunication and Energy
One South Station, 2nd Floor
Boston, MA 02110

Re: D.T.E. 04-70 — Petition of Boston Edison Company and Commonwealth Electric Company d/b/a NSTAR Electric for Approvals Relating to the Issuance of Rate Reduction Bonds Pursuant to G.L. c. 164, § 1H

Dear Secretary Cottrell:

Enclosed please find the Initial Brief of Boston Edison Company and Commonwealth Electric Company d/b/a NSTAR Electric in the above-referenced proceeding. Also enclosed is a certificate of service.

Thank you for your attention to this matter.

Very truly yours,

Robert N. Werlin

Enclosure

cc: Service List
Joan Foster Evans, Hearing Officer

COMMONWEALTH OF MASSACHUSETTS

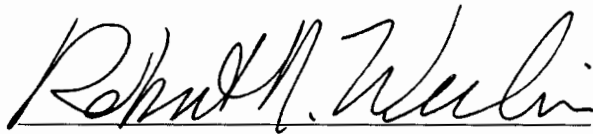
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

Boston Edison Company)
Commonwealth Electric Company)
_____)

D.T.E. 04-70

CERTIFICATE OF SERVICE

I certify that I have this day served the foregoing document upon the Department of Telecommunications and parties of record in accordance with the requirements of 220 C.M.R. 1.05 (Department's Rules of Practice and Procedures).



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Dated: December 10, 2004

COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

Petition of Boston Edison Company and)
Commonwealth Electric Company d/b/a)
NSTAR Electric, for Approvals Relating to)
Issuance of Rate Reduction Bonds Pursuant)
to G.L c. 164, §§1G and 1H)

D.T.E. 04-70

INITIAL BRIEF OF
BOSTON EDISON COMPANY
AND
COMMONWEALTH ELECTRIC COMPANY
d/b/a NSTAR ELECTRIC

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COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

Petition of Boston Edison Company and)
Commonwealth Electric Company d/b/a)
NSTAR Electric for Approvals Relating to)
Issuance of Rate Reduction Bonds Pursuant)
to G.L. c. 164, §1H)

D.T.E. 04-70

**INITIAL BRIEF OF BOSTON EDISON COMPANY
AND COMMONWEALTH ELECTRIC COMPANY
d/b/a NSTAR ELECTRIC**

I. INTRODUCTION

On August 31, 2004, Boston Edison Company (“Boston Edison”) and Commonwealth Electric Company (“Commonwealth”, and together with Boston Edison, the “Companies”) petitioned the Department of Telecommunications and Energy (the “Department”), pursuant to §§ 1G and 1H, the Boston Edison Restructuring Settlement Agreement (the “Settlement Agreement”) approved by the Department in D.P.U./D.T.E. 96-23, and Commonwealth’s restructuring plan (the “Restructuring Plan”) approved by the Department in D.P.U./D.T.E. 97-111 and D.P.U./D.T.E. 97-111-A, for approvals relating to the Issuance of Rate Reduction Bonds to provide for the securitization (as such term is used in G.L. c. 164, §§ 1G and 1H) of approximately \$675 million of reimbursable transition costs amounts consisting of the payments associated with the termination of obligations under certain power purchase agreements (the “PPAs”) between the Companies and MASSPOWER and between Commonwealth and Dartmouth Power Associates, L.P. (“Dartmouth”), the recovery of transition costs deferred by Commonwealth pursuant to the Restructuring Plan, transaction costs arising in connection with

the issuance of the RRBs, and the provision of any required credit enhancement (the “Petition”).

In two related proceedings (the “Related Proceedings”), the Companies petitioned the Department to approve the PPAs buyouts. In D.T.E. 04-61, the Companies requested that the Department approve the termination of the MASSPOWER PPAs and associated ratemaking treatment and find that the PPA buyouts are consistent with the Restructuring Act, the Settlement Agreement, in the case of Boston Edison, and the Restructuring Plan, in the case of Commonwealth. In D.T.E. 04-78, Commonwealth requested that the Department approve the termination of obligations to purchase electricity under the Dartmouth PPA and associated ratemaking treatment. In the Related Proceedings, the Companies have requested the Department to find that the buyouts, including the associated securitization, are likely to achieve savings and are otherwise in the public interest and are consistent with the Companies’ obligation to mitigate transition costs to the maximum extent possible. In this proceeding, the Companies request approvals to securitize, among other transition costs, the liquidation payments associated with the PPA buyouts. Approval by the Department of securitization is a condition to the PPA buyouts. Similarly, unless and until the Department authorizes the PPA buyouts in D.T.E. 04-61 and D.T.E. 04-78, the liquidation payments associated with the PPAs buyouts will not constitute transition costs and may not be securitized.

The Companies’ initial filing included the Petition and (1) the pre-filed testimony of Geoffrey O. Lubbock (Exh. NSTAR-GOL); (2) the pre-filed testimony of Emilie O’Neil (Exh. NSTAR-EGO); (3) the pre-filed testimony of John Fernando (Exh. NSTAR-JF); and

(4) supporting exhibits thereto.¹

On September 10, 2004, the Office of the Attorney General (the “Attorney General”) filed a notice of intervention. On September 30, 2004, a Petition to Intervene was filed by the Massachusetts Health and Educational Facilities Authority and Massachusetts Development Finance Agency (together, the “Agencies”). On October 4, 2004, Petitions to Intervene were also filed by Dartmouth and MASSPOWER. On October 7, 2004, a public hearing was held followed by a procedural conference during which the Hearing Officer granted the Agencies’, Dartmouth’s and MASSPOWER’s petitions to intervene. The Department held evidentiary hearings in this proceeding on December 1 and 2, 2004. The evidentiary record in this case includes approximately 40 exhibits, the transcript of the evidentiary hearings held on December 1 and 2, 2004, and the responses to 10 record requests. In addition, the Department incorporated by reference the Settlement Agreement, the Restructuring Plan and the evidentiary records in D.T.E. 04-61 and D.T.E. 04-78 (Tr. 1, at 7).

In support of the Petition, the Company presented the testimony of Geoffrey O. Lubbock, Vice President, Financial Strategic Planning & Policy for NSTAR Electric & Gas Corporation. Mr. Lubbock provided information regarding the securitization of the PPA buyouts, Commonwealth’s deferred transition costs and related transaction costs, and related customer savings. In addition, the Companies presented the testimony of Emilie O’Neil, Director of Corporate Finance and Cash Management, to discuss the structure of the securitization

¹ The Companies’ supporting exhibits include: (1) Exhibit NSTAR-EGO-1, Exhibit NSTAR-EGO-2, Exhibit NSTAR-EGO-3, Exhibit NSTAR-EGO-4, Exhibit NSTAR-EGO-5; and (2) Exhibit NSTAR GOL-1, Exhibit NSTAR-COM-GOL-1 through Exhibit NSTAR-COM-GOL-4. Exhibit NSTAR-GOL-1 **CONFIDENTIAL**, Exhibit NSTAR-COM-GOL-3 **CONFIDENTIAL**, and Exhibit NSTAR-COM-GOL-4 **CONFIDENTIAL** contain certain confidential information.

transaction. The Companies also presented the testimony John Fernando, Senior Vice President in Lehman Brother's Asset Backed Securities Group regarding rating agency requirements and market factors relating to the issuance of rate reduction bonds. In addition, the Agencies filed comments with the Department relating to the Companies' Petition (see Comments of the Agencies). Based on the evidence presented, the Companies have demonstrated that they have met the standards established in G.L. c. 164, § 1G(d)(4) and § 1H(b)(2) which require that: (i) an electric company seeking to securitize its transition costs prove to the satisfaction of the Department that saving to customers will result and that such saving will inure to the benefit of the customers; and (ii) the RRB Transition would reduce rates that an electric company's customers would have paid if a financing order were not adopted. Accordingly, the Companies respectfully request the Department approve the Petition.

II. STANDARD OF REVIEW AND APPLICABLE LAW

The Department has authority to review and approve the issuance of rate reduction bonds pursuant to G.L. c. 164, §§ 1G and 1H. Specifically, Section 1G provides that securitization is not available to each of the Companies absent proof "to the satisfaction of the [D]epartment" that each of the Companies has, among other things, fully mitigated the related transition costs, provided appropriately for affected employees, established a satisfactory order of preference for the use of bond proceeds such that transition costs having the greatest impact on customer rates will be the first to be reduced, and proposed a securitization program that will generate savings that will benefit customers. G.L. c. 164 § 1G(d)(4). As set forth herein, the proposed Financing

Order² satisfies these requirements.

Section 1H, the other key securitization provision, addresses the authority of the Department to issue financing orders in order to “facilitate the provision, recovery, financing, or refinancing of transition costs.” G.L. c. 164 § 1H(b)(1). The statute provides that a company may apply for and recover approved transition costs through the issuance of electric rate reduction bonds if the proposed transaction satisfies specific requirements. Among other things, this section also establishes the mechanism for repayment of the RRBs. G.L. c. 164 § 1H(b)(2), (b)(5), (b)(8) and (c)(3). Section 1H further mandates that the issuance of electric rate reduction bonds reduce rates that an electric company’s customers would have paid if the Financing Order were not adopted. G.L. c. 164, § 1H(b)(2). This is consistent with the statute’s requirement that all powers granted under § 1H “shall be ... for the benefit of the people of the Commonwealth, for the increase of their commerce and prosperity, and for the improvement of their health and living conditions.” G.L. c. 164, § 1H(b)(4)(iii). The Companies’ proposed Financing Order also satisfies the other applicable provisions of the Electric Restructuring Act³ (the “Restructuring Act”).

Consistent with the provisions and spirit of the Restructuring Act, the Companies submit their plan for securitization and request that it be approved.

² As in previous securitization cases, it is necessary that the Department make precise findings and orders in approving a petition under G.L. c. 164, § 1G and § H, and therefore the Companies have filed a proposed Financing Order for adoption by the Department. The proposed Financing Order is Exhibit NSTAR-1-B and references in this Initial Brief to the “Financing Order” or “Findings” or “Orders” refer to that exhibit.

³ Chapter 164 of the Acts of 1997, "An Act Relative to Restructuring the Electric Utility Industry in the Commonwealth, Regulating the Provision of Electricity and Other Services, and Promoting Enhanced Consumer Protections Therein," was enacted on November 25, 1997.

III. SUMMARY OF RRB TRANSACTION⁴

Securitization is a method for an electric company to recover, finance or refinance transition costs. G.L. c. 164, §§ 1G and 1H authorize an electric company to securitize its transition costs by issuing RRBs to investors that will be repaid through a portion of the transition charge. Boston Edison, together with other electric companies, and the staffs of the Agencies have previously developed a structure for the proposed securitization and the process for approval by the Department (Exh. NSTAR-EGO at 2; D.T.E. 98-118). Consistent with §§ 1G and 1H, the Companies seek to recover a portion of their transition costs, together with the transaction costs of issuing the RRBs, ongoing transaction costs and the costs of providing credit enhancement. These amounts constitute reimbursable transition costs amounts and will be financed through the issuance of RRBs (Exh. NSTAR-GOL at 3-5; Finding ¶3; Order ¶¶ 3, 4). A portion of the Companies' transition charge (the "RTC Charge"), a usage-based tariff on each retail user's monthly bill, will be used to repay these amounts (Exh. NSTAR-GOL at 3-5; Finding ¶14; Order ¶¶ 5, 16).

The RRBs will be backed by collateral, including the right to all collections or proceeds arising from: (a) the recoverable transition costs set forth in the Financing Order; (b) the RTC Charge authorized by the Financing Order; and (c) all rights to obtain adjustments to the RTC Charge (collectively the "Transition Property") (Exh. NSTAR-EGO at 6; Order ¶6).

Each of the Companies will sell the Transition Property to a special purpose entity (an "SPE"), a bankruptcy-remote entity owned and initially capitalized by each of the Companies

⁴ The RRB transaction is set forth in additional detail in the Companies' Petition for Approvals Relating to the Issuance of Rate Reduction Bonds, the pre-filed and hearing testimony of Mr. Lubbock (Exh. NSTAR-GOL), Ms. O'Neil (Exh. NSTAR-EGO), and Mr. Fernando (Exh. NSTAR-JF), as well as in other exhibits and responses to record requests.

(Exh. NSTAR-EGO at 6; Finding ¶19; Order ¶¶11, 12.) To raise the funds to buy the Transition Property from the Companies, each SPE will issue and sell SPE Debt Securities to a special purpose trust established by the Agencies (Exh. NSTAR-EGO at 6; Order ¶210). This special purpose trust will then issue RRBs, the proceeds of which will be remitted to each SPE pro rata in proportion to each SPE's SPE Debt Securities and ultimately to the Companies (Exh. NSTAR-EGO at 6; Order ¶ 22).

Once the Department issues the Financing Order, neither the Department nor the Commonwealth of Massachusetts through its pledge contained in G.L. c. 164, § 1H(b)(3) can alter or revoke the Transition Property or the RTC Charges (Finding ¶¶20, 21; Order ¶¶16, 17). The issuance of RRBs under the terms and conditions set forth in the proposed Financing Order will yield direct benefits to each Companies customers in the form of lower transition charges than would otherwise be required to recover the approved transition costs (Exh. NSTAR-GOL at 14-15; Finding ¶9, Order ¶¶ 7, 8, 28).

IV. APPROVAL OF APPLICATION FOR RATE REDUCTION BONDS IS APPROPRIATE AND MEETS THE STATUTORY REQUIREMENTS.

The RRB Transaction summarized above must comply with Sections 1G and 1H of the restructuring Act, which establish the statutory framework for the issuance of rate reduction bonds, and other applicable statutory provisions governing electric utilities. In consultation with the Agencies, the Companies structured the proposed Financing Order, and the transaction it contemplates, to satisfy these legal requirements (Comments of the Agencies, p. 2).

A. The RRB Transaction Satisfies the Provisions of G.L. c. 164, § 1G(d)(4)

G.L. c. 164, § 1G(d)(4), the key statutory section establishing the basic regulatory parameters for the securitization of transition costs, prescribes that an electric company seeking securitization must establish that:

(i) it has fully mitigated... transition costs ...; (ii) savings to ratepayers will result from securitization; (iii) all such savings derived from securitization shall insure to the benefit of ratepayers; . . . and (iv) the electric company demonstrates that it has established ... an order of preference for use of bond proceeds such that transition costs having the greatest impact on customer rates will be the first to be reduced by those proceeds.⁵

The Companies' proposed Financing Order complies with each of these requirements (Finding ¶¶5, 8, 9, 22; Order ¶8).

1. The Companies Have Fully Mitigated All Transition Costs That They Propose To Securitize, in Accordance with G.L. c. 164, § 1G(d)(4)(i).

Before approving the recovery of transition costs through the transition charge, the Department must issue an order finding that each of the Companies has taken "all reasonable steps to mitigate to the maximum extent possible the total amount of transition costs" each of the Companies seeks to recover. G.L. c. 164, §1G(d)(1). G.L. c. 164, §§1A(a) and 1G(d)(3) require an electric company to have an approved restructuring plan that establishes its overall mitigation strategy and to divest its non-nuclear generation assets in order to take advantage of securitization. Both of the Companies have divested their non-nuclear and nuclear generation assets. Boston Edison Company, D.T.E. 98-118 (1998), Finding ¶35; Cambridge/Commonwealth, et al., D.T.E. 98-78/83 (1998). The Department has approved the mitigation strategy for Boston Edison contained in the Settlement Agreement and for Commonwealth contained in the Restructuring Plan, and authorized the Companies to recover their associated transition costs. D.P.U./D.T.E. 96-23; D.P.U./D.T.E. 97-111 and D.P.U./D.T.E.

⁵ G.L. c. 164, § 16(d)(4)(iv) also provides that an electric company seeking securitization must establish that "it has obtained written commitments that purchasers of divested operations will offer employment to [certain] impacted employees . . . at levels of wages and overall compensation no lower than the employees' prior levels." The Department found that Boston Edison met the above requirement in connection with the divestiture of the Pilgrim Nuclear Power Station and related assets. See Boston Edison Company, D.P.U./D.T.E. 98-118 (1998), at 16.

97-111-A. If the Companies' Petitions in the Related Proceedings are approved, the liquidation payments associated with the buyouts of the PPAs will constitute reimbursable transition costs amounts, which the Companies propose be securitized.

With respect to Commonwealth's deferred transition charges, the Department has determined that each of the types of costs claimed by Commonwealth as transition costs in its Restructuring Plan, and which are described in Exhibit NSTAR-COM-GOL-4, page 4 of 16, are those types for which G.L. c. 164, § 1G allows recovery (RR-DTE-3; RR-DTE-6).

2. Amount To Be Securitized

G.L. c. 164, § 1H(b)(1) provides that the Department may issue a financing order "to facilitate the provision, recovery, financing, or refinancing of transition costs." Transition costs are "the embedded costs" which are determined to be recoverable through a transition charge pursuant to G.L. c. 164, § 1H(b)(1). In the Settlement Agreement, the Department approved the transition costs and transition charges (referred to as access charges in the Settlement Agreement) that Boston Edison may collect. In the Restructuring Plan, the Department approved Commonwealth's transition costs and transition charges which Commonwealth may collect. The Department has further determined, under G.L. c. 164, §§ 1G(e) and H(b)(2), that these transition charges be nonbypassable by customers.

The Department can authorize an electric company to securitize reimbursable transition costs amounts, as provided in G.L. c. 164, § 1H. Consistent with this, the Companies intend to securitize only those reimbursable transition costs amounts that have been, or will be, approved by the Department. The Companies currently estimate that the principal amount of RRBs to be issued will be approximately \$675 million, subject to adjustment based on the timing of the Companies' buyout of the PPAs and the issuance of the RRBs, the amount of Commonwealth's outstanding deferred transition costs at the time of issuance of the RRBs, the actual transaction

costs, input from rating agencies, and changes in the proposed RRB transaction not now anticipated by the Companies (Exh. NSTAR-GOL at 8).

The Companies have proposed to include transaction costs associated with issuing the RRBs in the securitized amount. G.L. c. 164, §1H(a) expressly provides that Transition property includes the right to recover transition costs “and the costs of providing, recovering, financing, or refinancing the transition costs, including the costs of issuing, servicing and retiring electric rate reduction bonds.” Most of the transaction costs associated with issuing the RRBs have been established, negotiated or approved by the Agencies (Comments of the Agencies, at 4).

With respect to the amount of Commonwealth’s deferred transition charges, the Department has also approved the amount of transition costs being recovered by Commonwealth through December 31, 2002 (RR-DTE-3; RR-DTE-6). The reconciliation of the amount of transition costs being recovered or expected to be recovered by Commonwealth during 2003 and 2004 has not yet to be approved by the Department. However, these costs are subject to a process to assure that the Department reviews and approves these costs. G.L. c. 164, § 1G(a)(2). To the extent reimbursable transition costs amounts previously included in a financing order exceed the correct amount, Commonwealth must provide customers with a uniform rate credit through the mechanism of their annual transition charge update (Exh. NSTAR-GOL at 11-12; RR-DTE-6). G.L. c. 164 § 1G(a)(2).

Such approval establishes the full mitigation of specific transition costs for the purposes of G.L. c. 164, § 1G(d)(4)(1) (Exh. NSTAR-GOL at 8-10; Finding ¶¶ 5, 22; Order ¶8).

3. Savings to Customers Will Result From Securitization and All Such Savings Will Inure to the Benefit of Customers, in Accordance with G.L. c.164, § 1G(d)(4)(ii), (iii).

Each of the Companies evaluated whether the RRB Transaction would result in net savings to its customers (D.T.E. 04-61 and D.T.E. 04-78; Exh. NSTAR-GOL at 14-15). Based

upon the methodology and assumptions set forth in the testimony, each of the Companies has demonstrated that the RRB Transaction to result in significant net savings to its customers by reducing the future transition charge payments its customers would be required to pay if the Financing Order were not adopted (Exh. NSTAR-GOL at 16). The actual savings and lower transition charges resulting from the RRB Transaction will depend upon the actual amount of RRBs issued, market conditions at the time of RRB pricing, the actual amount of transition costs, and the actual amount of transaction costs, including the amount of any required credit enhancement (Exh. NSTAR-EGO at 16-17).

Based on the evidence presented in this proceeding, the RRB Transaction will result in savings for customers as is contemplated by the Settlement Agreement and the Restructuring Plan and G.L. c. 164, §§ 1G(d)(4) and 1H(b)(2). To confirm this finding after RRB pricing, the Issuance Advice Letters shall include a calculation in accordance with the Companies' testimony indicating that, based on the actual structure and pricing terms, the RRB Transaction is expected to result in net savings and such savings will inure to the benefit of each of the Companies' customers.

4. The Companies Have Established an Order of Preference Such That the Transition Costs Having the Greatest Impact on Customer Rates Will Be Reduced by the Securitization, as Required by G.L. c. 164, § 1G(d)(4)(v).

G.L. c. 164, §164 1G(d)(4)(v) requires an electric company to establish an order of preference such that transition costs having the greatest impact on customer rates will be the first to be reduced by the securitization. In this proceeding, the Companies propose to securitize all of the reimbursable transition costs that the Companies believe may be securitized at this time. Effectively, the remaining transition costs that are not being financed with the proceeds of the RRBs represent future payments due on power purchase agreements. Because the above-market cost of most of the power to be purchased under these agreements cannot be determined

precisely until the time of payment, the above-market portion of the payment constituting transition costs, and, therefore, eligible to be securitized, would not be known until some future date. Moreover, although it might be possible to securitize the future payments to purchased power suppliers where the future payments are fixed and currently known, the interest arbitrage between borrowing at the securitization rate and the available investment with a AAA investment company is negative. Thus, no benefits would accrue to customers from securitizing these future cash obligations (Exh. NSTAR-GOL at 14). As the Companies are currently securitizing the only transition costs they believe are: (i) susceptible to securitization; and (ii) would generate savings resulting in lower transition charges, the securitization of the reimbursable transition costs amounts and the use of proceeds proposed in the Companies complies with G.L. c. 164, § 1G(d)(4)(v). Boston Edison Company, D.T.E. 98-118 (1999) at 16-17, Exh. NSTAR-GOL at 13-14; Finding ¶ 9; Order ¶¶ 8, 24, 59, 60.

B. The Companies Have Also Satisfied All Other Statutory Requirements for Securitization.

In addition to G.L. c. 164, § 1G(d)(4), each of the Companies has complied with all other applicable provisions of the Act and Massachusetts law governing electric companies and securitization. The proposed Financing Order provides for the 18-month lookback audit and the uniform rate credit required by G.L. c. 164, § 1G(a)(2) (Exh. NSTAR-GOL at 10) and both of the Companies have divested their non-nuclear generation assets.

The Companies have also satisfied each requirement of G.L. c. 164, § 1H relating to securitization.

- The provisions of the proposed Financing Order concerning the priority of RTC Charges and the Companies' proposed billing, collection and remittance procedures collectively satisfy the requirements of G.L. c. 164, § 1H(b)(1) (Exh. NSTAR-EGO at 7-9).

- The RRBs will be used to pay for transition costs related to G.L. c. 164, § 1G(b) in accordance with G.L. c. 164, § 1H(b)(4)(iv) (Exh. NSTAR-GOL at 4-7).
- The proposed Financing Order complies with G.L. c. 164, § 1H(b)(7) regarding unanticipated excess RTC Charges (Exh. NSTAR-GOL at 7).
- The proposed Financing Order does not authorize or require any amounts arising from the RRB Transaction to be used to benefit another electric company or the customers of another electric company, in accordance with G.L. c. 164, § 1H(b)(8) (Exh. NSTAR-EGO at 7-9).
- The terms of the draft Servicing Agreement between the Companies and each SPE satisfy the requirements of G.L. c. 164 § 1H(c)(3) (Exh. NSTAR-JF at 11).

C. The RRB Transaction Warrants an Exemption to the Competitive Bid Requirements of G.L. c. 164, § 15.

Massachusetts law mandates that an electric company issuing bonds submit such issuance to a competitive bidding process. G.L. c. 164, § 15. Section 15 also provides, however, that an electric company need not publicly invite proposals for the purchase of bonds where the granting of such an exemption is in the public interest.

A complex, asset-backed securitization, such as this, requires significant input from investment bankers (Exh. NSTAR-EGO at 28). In addition, the Companies require a significant amount of guidance and support from investment bankers in order to comply with rating agency requirements to assure that the RRBs receive the highest possible ratings. The competitive bidding requirements of Section 15 would materially inhibit the Companies' ability to obtain the necessary levels of input and guidance (id.).

D. A Waiver of the Par Value Requirements Pursuant to G.L. c. 164, § 15A Is in the Public Interest Because Such Waiver Reduces the Overall Cost of the RRBs.

An electric company may issue bonds below par value where such issuance is in the public interest. G.L. c. 164, § 15A. In this case, issuing the RRBs below par value will facilitate the marketing of the bonds, and therefore reduce the cost to customers of the securitization.

Such an exemption for the RRB Transaction would be in the public interest because it is difficult for the Companies to price the RRBs at par value at all times and still achieve the lowest interest rate available for such securities (Exh. NSTAR-EGO at 29). The requested exemption will allow the Companies to issue the RRBs regardless of daily vagaries of the financial markets. Without the ability to set the effective interest rate most precisely through a small discount on the par value of the RRBs, the Companies could have to pay a slightly higher interest rate to sell the RRBs resulting in lower savings to customers (*id.*). Therefore, the flexibility afforded by a par value waiver is in the public interest. Boston Edison Company, D.T.E. 98-118 (1999), at 43-44; Finding ¶ 26; Order ¶ 65.

E. Issuance of RRBs Meets Public Agency and Rating Agency Requirements.

G.L. c. 164, § 1H(b)(2) establishes the Agencies as a financing entity for RRBs. In this capacity, the goal of the Agencies is to protect the interests of customers by ensuring the lowest all-in pricing reasonably available for RRBs, streamlining the administration process and, thereby, minimizing the costs of issuing the RRBs, and providing consulting services to the Department. Boston Edison Company, D.T.E. 98-118 (1999) at 9-10, and Comments of the Agencies, at 1-2. The Agencies, which will oversee the issuance of the RRBs, have reviewed the Companies' Petition and have stated that the Agencies believe that:

- The Companies' Petition meets the legal requirements to issue RRBs;

- The proposed Financing Order includes the provisions, including the RTC Charge automatic true-up mechanism, necessary or the RRBs to achieve the highest possible ratings from major rating agencies and, therefore, bear the lowest interest cost in the current rate environment;
- The proposed Financing Order includes criteria governing third party billers that meet the requirements of the rating agencies;
- The language of the proposed Financing Order should ensure that any amounts accounted for in the memorandum Account, as well as RTC Charge collections that remain after payment of the RRBs, will be credited to customers; and
- The Annual servicing fees are reasonable and have been determined through negotiation between the Agencies and the Companies.

See Comments of Agencies, at 2-4.

The Agencies have established, negotiated or approved many of the up-front and on-going transaction costs, including the underwriting spread, rating agency fees, printing and marketing expenses, trustee fees and trustee's counsel fees, bond counsel fees, special counsel fees, the Agencies' fees, and miscellaneous costs and expenses in order to assure that the costs of issuing RRBs and ongoing administrative costs are minimized (Comments of Agencies, at 4).

V. CONCLUSION

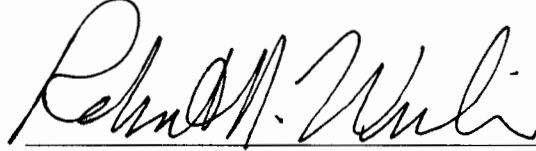
The Companies are required by statute to provide net savings for the benefit of customers. The instant RRB Transaction will result in net savings as reflected in lower transition charges.

For the reasons set forth herein as well as in the Companies' Petition for Approval of its Application for Issuance of Rate Reduction Bonds, and all of the testimony and information submitted by the Companies in connection with the proceedings, the Companies respectfully request that the Department approve their Application for Issuance of Rate Reduction Bonds on the terms and conditions set forth in the proposed Finance Order, Exhibit NSTAR-1-B.

Respectfully submitted

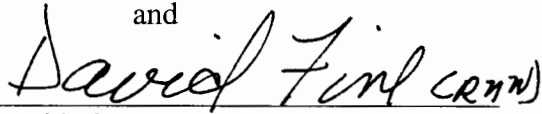
**BOSTON EDISON COMPANY
COMMONWEALTH ELECTRIC COMPANY**

By its attorneys,

A handwritten signature in black ink, appearing to read "Robert N. Werlin". The signature is fluid and cursive, with the first name "Robert" being more prominent.

Robert N. Werlin, Esq.
Keegan, Werlin & Pabian
265 Franklin Street
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(617)

and

A handwritten signature in black ink, appearing to read "David Fine". The signature is cursive and somewhat stylized, with the last name "Fine" being more prominent.

David Fine, Esq.
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(617) 951-7000

Dated: December 10, 2004